

**REPORT OF THE AUDIT OF THE
GARRARD COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GARRARD COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

The Auditor of Public Accounts has completed the Garrard County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued a qualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects, except for the omission of financial data from the Garrard County Memorial Hospital and the Garrard County Long-Term Care Facility, Inc.

Financial Condition:

Fund balances decreased by \$156,843 from the beginning of the year, resulting in a cash surplus of \$365,594 as of June 30, 2003.

Debt Obligations:

Capital lease principal agreements totaled \$4,623,757 as of June 30, 2003. Future principal and interest payments of \$8,611,579 are needed to meet these obligations.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
GARRARD COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY BALANCES ARISING FROM CASH TRANSACTIONS.....	7
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES.....	10
NOTES TO FINANCIAL STATEMENTS	12
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	21
SCHEDULE OF OPERATING REVENUE	25
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	29
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	33
COMMENT AND RECOMMENDATION	37
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable E. J. Hasty, Garrard County Judge/Executive
Members of the Garrard County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Garrard County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Garrard County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Garrard County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above do not include financial data of Garrard County Memorial Hospital or Garrard County Long-Term Care Facility, Inc., which should be included in order to conform with the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky.

In our opinion, except for the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Garrard County, Kentucky, as of June 30, 2003, and the revenues received and expenditures paid for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2004, on our consideration of Garrard County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Garrard County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 20, 2004

GARRARD COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

E. J. Hasty	County Judge/Executive
Marvin Conn	Magistrate
F. C. Foley	Magistrate
Joe Leavell	Magistrate
Ronnie Lane	Magistrate
David Rankin	Magistrate

Other Elected Officials:

Jeff Moss	County Attorney
Kenny Tuggle	Jailer
Stacy May	County Clerk
Jennifer Grubbs	Circuit Court Clerk
Ronnie Wardrip	Sheriff
Marsha McQueary	Property Valuation Administrator
Carla Henderson	Coroner

Appointed Personnel:

Louise Robinson	County Treasurer
Louise Robinson	Occupational Tax Collector
Angela Robinson	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY BALANCES ARISING FROM CASH TRANSACTIONS

GARRARD COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Type</u>		<u>Totals</u> (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 300,121	\$ 81,788	\$ 381,909
Total Assets	<u>\$ 300,121</u>	<u>\$ 81,788</u>	<u>\$ 381,909</u>
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Capital Leases	<u>\$ 4,623,757</u>	<u>\$</u>	<u>\$ 4,623,757</u>
Total Other Resources	<u>\$ 4,623,757</u>	<u>\$ 0</u>	<u>\$ 4,623,757</u>
Total Assets and Other Resources	<u>\$ 4,923,878</u>	<u>\$ 81,788</u>	<u>\$ 5,005,666</u>
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Leases	<u>\$ 4,623,757</u>	<u>\$</u>	<u>\$ 4,623,757</u>
Total Liabilities	<u>\$ 4,623,757</u>	<u>\$ 0</u>	<u>\$ 4,623,757</u>
<u>Equity</u>			
Fund Balances:			
Reserved	\$	\$ 81,788	\$ 81,788
Unreserved	<u>300,121</u>		<u>300,121</u>
Total Equity	<u>\$ 300,121</u>	<u>\$ 81,788</u>	<u>\$ 381,909</u>
Total Liabilities and Equity	<u>\$ 4,923,878</u>	<u>\$ 81,788</u>	<u>\$ 5,005,666</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

GARRARD COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,965,580	\$ 1,182,600	\$ 64,232	\$ 244
Other Financing Sources:				
Transfers In	15,000		203,500	15,355
Capital Lease Proceeds	40,000			
Kentucky Advance Revenue Program	615,800	36,800		
Total Cash Receipts	<u>\$ 2,636,380</u>	<u>\$ 1,219,400</u>	<u>\$ 267,732</u>	<u>\$ 15,599</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,788,473	\$ 1,077,422	\$ 271,517	\$ 15,599
Other Financing Uses:				
Transfers Out	307,873			
Capital Leases - Principal:				
Health Department	50,000			
Ambulance	7,500			
Computers	2,724			
Printer	340			
Hospital Debt Restructure	70,000			
Trucks		17,302		
Kentucky Advance Revenue Program Repaid	615,800	36,800		
Total Cash Disbursements	<u>\$ 2,842,710</u>	<u>\$ 1,131,524</u>	<u>\$ 271,517</u>	<u>\$ 15,599</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (206,330)	\$ 87,876	\$ (3,785)	\$
Cash Balance - July 1, 2002	<u>365,721</u>	<u>33,396</u>	<u>6,928</u>	
Cash Balance - June 30, 2003	<u>\$ 159,391</u>	<u>\$ 121,272</u>	<u>\$ 3,143</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2003
(Continued)

<u>Special Revenue Fund Type</u>			
<u>E-911 Fund</u>	<u>CSEPP Fund</u>	<u>House Bill 577 Fund</u>	<u>Totals (Memorandum Only)</u>
\$ 11,712	\$ 78,977	\$ 8,590	\$ 3,311,935
	15,000	74,018	322,873
			40,000
			652,600
<u>\$ 11,712</u>	<u>\$ 93,977</u>	<u>\$ 82,608</u>	<u>\$ 4,327,408</u>
\$ 104,174	\$ 99,361	\$ 4,366	\$ 3,360,912
	15,000		322,873
			50,000
			7,500
			2,724
			340
			70,000
			17,302
			652,600
<u>\$ 104,174</u>	<u>\$ 114,361</u>	<u>\$ 4,366</u>	<u>\$ 4,484,251</u>
\$ (92,462)	\$ (20,384)	\$ 78,242	\$ (156,843)
92,462	23,930		522,437
<u>\$ 0</u>	<u>\$ 3,546</u>	<u>\$ 78,242</u>	<u>\$ 365,594</u>

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Garrard County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Garrard County Memorial Hospital and the Garrard County Long-Term Care Facility, Inc. as part of the reporting entity. There have been no audits performed on these entities during the year of audit.

Garrard County Memorial Hospital

The Garrard County Memorial Hospital and Long-Term Care Facility began operations in Lancaster, Kentucky in 1950. The facility was established to provide emergency and inpatient medical care. The long-term care facility portion was established to provide long-term care to elderly patients, but this portion of the facility was sold as described below. The hospital is governed by a board appointed entirely by Garrard County Fiscal Court.

Garrard County Long-Term Care Facility, Inc.

The Garrard County Long-Term Care Facility, Inc. was created when a no stock nonprofit corporation was formed on March 13, 2001. On June 6, 2001, the newly formed corporation purchased the Long-Term Care Facility from Garrard County Memorial Hospital. This facility was established to provide long-term care to elderly patients.

Additional - Garrard County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Garrard County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Garrard County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Garrard County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Garrard County Special Revenue Fund Type includes the following county funds: E-911 Fund, CSEPP Fund, and the House Bill 577 Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Garrard County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash

Cash includes amounts in bank accounts.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Receivable

On June 6, 2001, Garrard County Fiscal Court (the County) entered into a thirty-year, \$4,500,000 capital lease agreement with the Kentucky Association of Counties Leasing Trust (Note 5.D.) in order to refinance the debt of Garrard County Memorial Hospital (the Hospital). During the fiscal year ended June 30, 2003, the Hospital made payments to the County totaling \$169,656 to offset the debt service requirements. The last scheduled payment made by the Hospital to the County was received in January 2003, and the Hospital was subsequently sold in August 2003 (Note 7.). As of June 30, 2003, the principal balance of \$4,365,000 was due to the County from the Hospital. As a result of the sale of the Hospital, the County has assumed responsibility for the remaining portion of the debt.

Note 5. Capital Lease Agreements

A. Health Department

In December 1997, Garrard County entered into an eight-year, \$450,000 lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purpose of constructing a county health department. Principal payments are due each January 20 while interest is paid monthly. The principal balance of the lease as of June 30, 2003, was \$224,000.

<u>Fiscal Year</u> <u>Due</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 11,242	\$ 52,000
2005	8,283	55,000
2006	1,171	57,000
2007	1,945	60,000
Totals	<u>\$ 22,641</u>	<u>\$ 224,000</u>

After entering into the lease agreement with KACoLT, the County entered into a sublease agreement with the Garrard County Public Health Taxing District. The terms, provisions, and stipulations of the sublease are the same as those set forth in the lease. All rental payments and other charges are to be paid by the subleasee to the sublessor and the sublessor will thereafter make said payments to KACoLT. As of June 30, 2003, the County Public Health Taxing District appeared to be in compliance with provisions of the sublease.

GARRARD COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 5. Capital Lease Agreements (Continued)

B. Ambulance

On August 8, 2002, the Garrard County Fiscal Court entered into a five-year, \$40,000 lease agreement with the Kentucky Association of Counties Leasing Trust to purchase an ambulance. Principal payments are due each January 20 while interest payments are due monthly. The principal balance of the lease as of June 30, 2003 was \$32,500.

<u>Fiscal Year Due</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 989	\$ 7,800
2005	723	8,000
2006	449	8,200
2007	168	8,500
Totals	<u>\$ 2,329</u>	<u>\$ 32,500</u>

C. Computer

On August 10, 2001, the Garrard County Fiscal Court entered into a two-year lease agreement with Bamill, Inc. to purchase one computer. Payments of \$162 are due the fifteenth day of each month for the life of the lease. At expiration of the lease on August 15, 2003, the County will have the option to purchase the computer for \$1. The principal balance of the lease as of June 30, 2003 was \$147.

<u>Fiscal Year Due</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>\$ 16</u>	<u>\$ 147</u>

GARRARD COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 5. Capital Lease Agreements (Continued)

D. Printer

On January 21, 2003, the Garrard County Fiscal Court entered into a three-year lease agreement with Bamill, Inc. to purchase a laser printer. Payments of \$79 are due the first day of each month for the life of the lease. At expiration of the lease on February 1, 2006, the County will have the option to purchase the laser printer for \$1. The principal balance of the lease as of June 30, 2003 was \$2,110.

<u>Fiscal Year Due</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 127	\$ 817
2005	127	817
2006	74	476
Totals	<u>\$ 328</u>	<u>\$ 2,110</u>

E. Hospital Debt Restructure

On June 6, 2001, the Garrard County Fiscal Court entered into a thirty-year, \$4,500,000 lease agreement with the Kentucky Association of Counties Leasing Trust to restructure the short-term debt of the Garrard County Memorial Hospital. Principal payments are due each January 20 while interest payments are due monthly. The principal balance of the lease as of June 30, 2003 was \$4,365,000.

<u>Fiscal Year Due</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 243,738	\$ 70,000
2005	239,686	75,000
2006	235,352	80,000
2007	230,738	85,000
2008	225,843	90,000
2009-2013	1,045,945	525,000
2014-2018	880,206	665,000
2019-2023	667,925	860,000
2024-2028	120,019	1,110,000
2029-2031	73,056	805,000
Totals	<u>\$ 3,962,508</u>	<u>\$ 4,365,000</u>

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Insurance

For the fiscal year ended June 30, 2003, Garrard County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Garrard County Memorial Hospital and Garrard County Long-Term Care Facility, Inc.

The prior year audit disclosed the declining financial position of Garrard County Memorial Hospital (and related Garrard County Long-Term Care Facility, Inc. - collectively, the Hospital) and Garrard County Fiscal Court's (the County) efforts to assist the Hospital in remaining financially solvent. Specifically, the County secured financing in the amount of \$4,500,000 in order for the Hospital to restructure its debt. Initially, the Hospital made monthly payments to the County to offset the debt service requirements of the capital lease (Note 5.D.); however, the Hospitals' financial condition continued to decline and it has been unable to make scheduled payments since January 2003.

In response to the Hospital's inability to continue debt service payments, the County approved an increase in the occupational license fee and net profit realized from one percent to two percent effective July 1, 2003. The County also enacted an insurance premiums tax of six percent in March 2004 to take effect July 1, 2004. In April 2004, the County adopted an ordinance earmarking the proceeds of the one percent increase and the insurance premiums tax, as well as the proceeds from the sale of the county farm, for debt service requirements related to the Hospital.

The Hospitals' financial statements presented in the prior year audit were the last financial statements prepared for the entity. During the current year audit attempts were made to obtain financial data from the Hospital; however, no statements were made available. Based on the lack of financial statements, there has been no calculation of income or loss during the year of audit and ultimately no gain or loss can be established as a result of the sale of the Hospital.

In August 2003, the Hospital was sold to Care Centers Management Group of Tennessee for one million four hundred fifty thousand dollars (\$1,450,000). This money was retained by the Hospital to satisfy debts other than the County's. The sale of the hospital and long-term care facility has not resolved the financial difficulties facing the County, and as of the audit date, the County Attorney has indicated the County has been named in one lawsuit involving the Hospital. Damages alleged in the lawsuit are approximately three hundred fifty thousand dollars (\$350,000) with the possibility of treble damages being awarded if the plaintiff is successful. The County Attorney is aware of no other pending litigation, but has indicated the County could be added as a party to additional litigation related to the Hospital based upon the dates the debts were incurred.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

GARRARD COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,702,561	\$ 1,965,580	\$ 263,019
Road and Bridge Fund	1,147,698	1,182,600	34,902
Jail Fund	297,890	64,232	(233,658)
Local Government Economic Assistance Fund	15,600	244	(15,356)
<u>Special Revenue Fund Type</u>			
E-911 Fund	112,000	11,712	(100,288)
CSEPP Fund	120,100	78,977	(41,123)
House Bill 577 Fund	74,018	8,590	(65,428)
Totals	<u>\$ 3,469,867</u>	<u>\$ 3,311,935</u>	<u>\$ (157,932)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 3,469,867	
Add: Budgeted Prior Year Surplus		582,679	
Less: Other Financing Uses		<u>(147,866)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 3,904,680</u>	

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SCHEDULE OF OPERATING REVENUE

GARRARD COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE		
	General Fund Type	Special Revenue Fund Type	Totals (Memorandum Only)
Taxes	\$ 1,122,276	\$ 11,712	\$ 1,133,988
Excess Fees	85,472		85,472
Intergovernmental Revenues	1,423,397	87,270	1,510,667
Charges for Services	346,758		346,758
Miscellaneous Revenues	225,914	94	226,008
Interest Earned	8,839	203	9,042
Total Operating Revenue	<u>\$ 3,212,656</u>	<u>\$ 99,279</u>	<u>\$ 3,311,935</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

GARRARD COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

GENERAL FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 506,661	\$ 480,662	\$ 25,999
Protection to Persons and Property	773,149	730,557	42,592
General Health and Sanitation	242,822	233,529	9,293
Social Services	18,108	18,069	39
Recreation and Culture	13,966	12,933	1,033
Roads	946,448	893,294	53,154
Debt Service	248,371	248,165	206
Capital Projects	50,972	49,222	1,750
Administration	646,135	486,580	159,555
Total Operating Budget - General Fund Type	\$ 3,446,632	\$ 3,153,011	\$ 293,621
Other Financing Uses:			
Capital Lease Principal Payments-			
Health Department	50,000	50,000	
Ambulance	7,500	7,500	
Computers	2,724	2,724	
Printer	340	340	
Hospital Debt Restructure	70,000	70,000	
Trucks	17,302	17,302	
TOTAL BUDGET - GENERAL FUND TYPE	\$ 3,594,498	\$ 3,300,877	\$ 293,621

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 16,000	\$ 4,366	\$ 11,634
Protection to Persons and Property	367,030	197,102	169,928
Administration	75,018	6,433	68,585
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 458,048	\$ 207,901	\$ 250,147

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable E. J. Hasty, Garrard County Judge/Executive
Members of the Garrard County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Garrard County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated July 20, 2004 in which we expressed a qualified opinion because the financial data of Garrard County Memorial Hospital and Garrard County Long-term Care Facility, Inc. is excluded. Except for the aforementioned excluded data, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Garrard County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Garrard County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Garrard County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 20, 2004

COMMENT AND RECOMMENDATION

GARRARD COUNTY
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2003

REPORTABLE CONDITION

Lacks Adequate Segregation of Duties

We noted a lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Public Accountants. When the auditor tried to confirm ambulance receipts, it came to the auditor's attention that one employee in the Judge's office was responsible for billing for the ambulance service, collecting money due, and making the postings. The same employee was responsible for the accounts receivable of the ambulance service. Due to the entity's diversity of official operations, small staff size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the county could implement some of the following procedures to establish some compensating controls to offset the lack of adequate segregation of duties.

- Either Another Employee Bill For The Ambulance Service Or The County Could Hire A Billing Service To Perform This Function.
- Recording Of Receipts By An Individual Who Does Not Do The Billing.
- Accounts Receivable Tracking By An Individual Not Involved In The Billing Or Recording Of Receipts.

The Auditor of Public Accounts has judged the lack of an adequate segregation of duties as a reportable condition and a material weakness. We recommend that the county implement some of the procedures as described above to establish controls to compensate for the lack of adequate segregation of duties.

County Judge/Executive E. J. Hasty's Response:

We have now hired a billing service to do our ambulance billing.

NONCOMPLIANCES

None

PRIOR YEAR FINDING

Lacks Adequate Segregation of Duties

This comment has not been corrected and is repeated above.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS

GARRARD COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

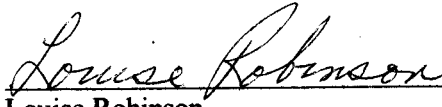
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
GARRARD COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Garrard County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



E. J. Hasty
County Judge/Executive



Louise Robinson
County Treasurer

